

108TH CONGRESS
1ST SESSION

S. 96

To repeal the sunset of the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 7, 2003

Mr. KYL introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To repeal the sunset of the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Contract With Inves-
5 tors”.

6 **SEC. 2. REPEAL OF SUNSET.**

7 Title IX of the Economic Growth and Tax Relief Rec-
8 onciliation Act of 2001 (Public Law 107–16) is repealed.

1 **SEC. 3. ACCELERATION OF INDIVIDUAL INCOME TAX RATE**
 2 **REDUCTIONS.**

3 (a) IN GENERAL.—The table contained in section
 4 1(i)(2) of the Internal Revenue Code of 1986 (relating to
 5 reductions in rates after June 30, 2001) is amended—

6 (1) by striking “and 2003”,

7 (2) by striking “2004 and 2005” and inserting
 8 “2003”, and

9 (3) by striking “2006” and inserting “2004”.

10 (b) EFFECTIVE DATE.—The amendments made by
 11 this section shall apply to taxable years beginning after
 12 December 31, 2002.

13 **SEC. 4. REPEAL OF ESTATE AND GENERATION-SKIPPING**
 14 **TRANSFER TAXES ACCELERATED TO 2005.**

15 (a) ESTATE TAX REPEAL.—Section 2210 of the In-
 16 ternal Revenue Code of 1986 (relating to termination) is
 17 amended—

18 (1) by striking “December 31, 2009” and in-
 19 serting “December 31, 2004” both places it appears,

20 (2) by striking “January 1, 2010” in subsection

21 (b) and inserting “January 1, 2005”, and

22 (3) by striking “December 31, 2020” in sub-
 23 section (b)(1) and inserting “December 31, 2014”.

24 (b) GENERATION-SKIPPING TRANSFER TAX RE-
 25 PEAL.—Section 2664 of such Code (relating to termi-

1 nation) is amended by striking “December 31, 2009” and
 2 inserting “December 31, 2004”.

3 (c) CONFORMING AMENDMENTS.—

4 (1) The table contained in section 2010(c) of
 5 such Code is amended—

6 (A) by striking “and 2005”,

7 (B) by inserting a period after
 8 “\$1,500,000”, and

9 (C) by striking the last 2 items.

10 (2) Section 1014(f) of such Code is amended by
 11 striking “December 31, 2009” and inserting “De-
 12 cember 31, 2004”.

13 (3) Section 1022 of such Code is amended—

14 (A) by striking “December 31, 2009” in
 15 the heading and in subsection (a)(1) and insert-
 16 ing “December 31, 2004”, and

17 (B) in subsection (d)(4)(A)—

18 (i) by striking “2010” and inserting
 19 “2005”,

20 (ii) by striking “2009” in clause (ii)
 21 and inserting “2004”.

22 (4) The table contained in section
 23 2001(c)(2)(B) of such Code is amended—

24 (A) by inserting a period after “48 per-
 25 cent”, and

1 (B) by striking the last 3 items.

2 (5) Section 2001(c)(2)(A) of such Code is
3 amended by striking “2010” and inserting “2005”.

4 (6) The item in the table of sections for part
5 II of subchapter O of chapter 1 of such Code relat-
6 ing to section 1022 is amended by striking “Decem-
7 ber 31, 2009” and inserting “December 31, 2004”.

8 (7) Section 501(d) of the Economic Growth and
9 Tax Relief Reconciliation Act of 2001 (Public Law
10 107–16) is amended by striking “December 31,
11 2009” and inserting “December 31, 2004”.

12 (8) Paragraph (3) of section 511(f) of the Eco-
13 nomic Growth and Tax Relief Reconciliation Act of
14 2001 (Public Law 107–16) is amended by striking
15 “December 31, 2009” and inserting “December 31,
16 2004”.

17 (9) Paragraph (2) of section 521(e) of the Eco-
18 nomic Growth and Tax Relief Reconciliation Act of
19 2001 (Public Law 107–16) is amended by striking
20 “December 31, 2009” and inserting “December 31,
21 2004”.

22 (10) Subsection (f) of section 542 of the Eco-
23 nomic Growth and Tax Relief Reconciliation Act of
24 2001 (Public Law 107–16) is amended by striking

1 “December 31, 2009” each place it appears and in-
 2 serting “December 31, 2004”.

3 (d) EFFECTIVE DATE.—The amendments made by
 4 this section shall take effect on the date of the enactment
 5 of this Act.

6 **SEC. 5. REDUCTION OF MAXIMUM CAPITAL GAINS RATES**
 7 **FOR INDIVIDUALS.**

8 (a) IN GENERAL.—Section 1(h) of the Internal Rev-
 9 enue Code of 1986 (relating to maximum capital gains
 10 rate) is amended to read as follows:

11 “(h) MAXIMUM CAPITAL GAINS RATE.—

12 “(1) IN GENERAL.—If a taxpayer has a net
 13 capital gain for any taxable year, the tax imposed by
 14 this section for such taxable year shall not exceed
 15 the sum of—

16 “(A) a tax computed on taxable income re-
 17 duced by the net capital gain, at the rates and
 18 in the same manner as if this subsection had
 19 not been enacted, plus

20 “(B) 10 percent of the taxpayer’s net cap-
 21 ital gain (or, if less, taxable income).

22 “(2) NET CAPITAL GAIN TAKEN INTO ACCOUNT
 23 AS INVESTMENT INCOME.—For purposes of this sub-
 24 section, the net capital gain for any taxable year
 25 shall be reduced (but not below zero) by the amount

1 which the taxpayer elects to take into account as in-
 2 vestment income for the taxable year under section
 3 163(d)(4)(B)(iii).”.

4 (b) MINIMUM TAX.—

5 (1) IN GENERAL.—Subparagraph (A) of section
 6 55(b)(1) of the Internal Revenue Code of 1986 (re-
 7 lating to amount of tentative tax) is amended by re-
 8 designating clauses (ii) and (iii) as clauses (iii) and
 9 (iv), respectively, and by inserting after clause (i)
 10 the following new clause:

11 “(ii) MAXIMUM RATE OF TAX ON NET
 12 CAPITAL GAIN.—The amount determined
 13 under the first sentence of clause (i) shall
 14 not exceed the sum of—

15 “(I) the amount determined
 16 under such first sentence computed at
 17 the rates and in the same manner as
 18 if this clause had not been enacted on
 19 the taxable excess reduced by the net
 20 capital gain, plus

21 “(II) a tax of 10 percent of the
 22 lesser of the net capital gain or the
 23 taxable excess.”.

24 (2) CONFORMING AMENDMENT.—Section 55(b)
 25 of such Code is amended by striking paragraph (3).

1 (c) CONFORMING AMENDMENTS.—

2 (1) Section 57(a)(7) of the Internal Revenue
3 Code of 1986 is amended by striking the last sen-
4 tence.

5 (2) Paragraph (1) of section 1445(e) of such
6 Code is amended by striking “20 percent” and in-
7 serting “10 percent”.

8 (3)(A) The second sentence of section
9 7518(g)(6)(A) of such Code is amended by striking
10 “20 percent” and inserting “10 percent”.

11 (B) The second sentence of section
12 607(h)(6)(A) of the Merchant Marine Act, 1936 is
13 amended by striking “20 percent” and inserting “10
14 percent”.

15 (d) EFFECTIVE DATES.—

16 (1) IN GENERAL.—The amendments made by
17 this section shall apply to taxable years beginning
18 after December 31, 2002.

19 (2) WITHHOLDING.—The amendment made by
20 subsection (c)(2) shall apply to amounts paid after
21 December 31, 2002.

22 **SEC. 6. INCREASE IN LIMITATION ON CAPITAL LOSSES AP-**
23 **PLICABLE TO INDIVIDUALS.**

24 (a) IN GENERAL.—Paragraph (1) of section 1211(b)
25 of the Internal Revenue Code of 1986 (relating to limita-

tion on capital losses for taxpayers other than corporations) is amended by striking “\$3,000 (\$1,500” and inserting “\$10,000 (\$5,000”.

(b) ADJUSTMENT FOR INFLATION.—Section 1211 of the Internal Revenue Code of 1986 (relating to limitation on capital losses) is amended by adding at the end the following new subsection:

“(c) ADJUSTMENT FOR INFLATION.—

“(1) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 2003, the \$10,000 and \$5,000 amounts contained in subsection (b)(1) shall each be increased by an amount equal to—

“(A)(i) such amount, multiplied by

“(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins by substituting ‘calendar year 2002’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(B) ROUNDING.—If any increase determined under paragraph (1) is not a multiple of \$5, such increase shall be rounded to the next highest multiple of \$5.”.

1 (c) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to taxable years beginning after
 3 December 31, 2002.

4 **SEC. 7. ACCELERATION OF INCREASE IN CONTRIBUTIONS**
 5 **TO CERTAIN RETIREMENT PLANS.**

6 (a) IRAS.—

7 (1) IN GENERAL.—Subparagraph (A) of section
 8 219(b)(5) of the Internal Revenue Code of 1986 (de-
 9 fining deductible amount) is amended to read as fol-
 10 lows:

11 “(A) The deductible amount shall be
 12 \$5,000.”.

13 (2) INFLATION ADJUSTMENT.—Section
 14 219(b)(5)(C) of such Code is amended—

15 (A) by striking “2008” and inserting
 16 “2003”, and

17 (B) by striking “2007” and inserting
 18 “2002”.

19 (b) 401(k) PLANS.—

20 (1) IN GENERAL.—Paragraph (1) of section
 21 402(g) of such Code is amended—

22 (A) by striking “the applicable dollar
 23 amount” in subparagraph (A) and inserting
 24 “\$15,000”,

25 (B) by striking subparagraph (B),

1 (C) by redesignating subparagraph (C) as
 2 subparagraph (B), and

3 (D) by striking “the applicable dollar
 4 amount under subparagraph (B)” in subpara-
 5 graph (B) (as redesignated by subparagraph
 6 (C)) and inserting “the dollar amount in sub-
 7 paragraph (A)”.

8 (2) INFLATION ADJUSTMENT.—Section
 9 402(g)(4) of such Code is amended—

10 (A) by striking “2006” and inserting
 11 “2003”, and

12 (B) by striking “2005” and inserting
 13 “2002”.

14 (3) CONFORMING AMENDMENT.—Section
 15 401(a)(30) of such Code is amended by striking
 16 “section 402(g)(1)(A)” and inserting “section
 17 402(g)(1)”.

18 (c) 457 PLANS.—

19 (1) IN GENERAL.—Subparagraph (A) of section
 20 457(b)(2) of such Code is amended by striking “the
 21 applicable dollar amount” and inserting “\$15,000”.

22 (2) INFLATION ADJUSTMENT.—Section
 23 457(e)(15) of such Code is amended to read as fol-
 24 lows:

1 “(15) COST-OF-LIVING ADJUSTMENT.—In the
 2 case of taxable years beginning after December 31,
 3 2003, the Secretary shall adjust the \$15,000
 4 amount under subsection (b)(2)(A) at the same time
 5 and in the same manner as under section 415(d),
 6 except that the base period shall be the calendar
 7 quarter beginning July 1, 2002, and any increase
 8 under this paragraph which is not a multiple of
 9 \$500 shall be rounded to the next lowest multiple of
 10 \$500.”.

11 (d) EFFECTIVE DATE.—The amendments made by
 12 this section shall apply to taxable years beginning after
 13 December 31, 2002.

14 **SEC. 8. AGE FOR BEGINNING MANDATORY DISTRIBUTIONS**
 15 **INCREASED TO 75.**

16 (a) QUALIFIED PENSION PLANS.—Subparagraphs
 17 (B)(iv) and (C) of section 401(a)(9) of the Internal Rev-
 18 enue Code of 1986 (relating to required distributions) are
 19 each amended by striking “70½” each place it appears
 20 and inserting “75”.

21 (b) INDIVIDUAL RETIREMENT PLANS.—

22 (1) Paragraph (1) of section 219(d) of such
 23 Code is amended—

24 (A) by striking “70½” in the text and in-
 25 serting “75”, and

1 (B) by striking “70½” in the heading and
 2 inserting “75”.

3 (2) Subsection (b) of section 408 of such Code
 4 is amended by striking “70½” and inserting “75”.

5 (c) ROTH IRA’S.—Paragraph (4) of section 408A(c)
 6 of such Code is amended—

7 (1) by striking “70½” in the text and inserting
 8 “75”, and

9 (2) by striking “70½” in the heading and in-
 10 serting “75”.

11 (d) SECTION 457 PLANS.—Clause (i) of section
 12 457(d)(1)(A) of such Code is amended by striking “70½”
 13 and inserting “75”.

14 (e) EFFECTIVE DATE.—The amendments made by
 15 this section shall apply to distributions after December 31,
 16 2002.

17 **SEC. 9. EXCLUSION OF DIVIDEND INCOME FROM TAX.**

18 (a) IN GENERAL.—Part III of subchapter B of chap-
 19 ter 1 of the Internal Revenue Code of 1986 (relating to
 20 amounts specifically excluded from gross income) is
 21 amended by inserting after section 115 the following new
 22 section:

8 “(b) CERTAIN DIVIDENDS EXCLUDED.—Subsection
9 (a) shall not apply to any dividend from a corporation
10 which, for the taxable year of the corporation in which
11 the distribution is made, or for the next preceding taxable
12 year of the corporation, is a corporation exempt from tax
13 under section 501 (relating to certain charitable, etc., or-
14 ganization) or section 521 (relating to farmers’ coopera-
15 tive associations).

“(1) EXCLUSION NOT TO APPLY TO CAPITAL
GAIN DIVIDENDS FROM REGULATED INVESTMENT
COMPANIES AND REAL ESTATE INVESTMENT
TRUSTS.—For treatment of capital gain dividends,
see sections 854(a) and 857(c).

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1 “(A) in determining the tax imposed for
 2 the taxable year pursuant to section 871(b)(1)
 3 and only in respect of dividends which are effec-
 4 tively connected with the conduct of a trade or
 5 business within the United States, or

6 “(B) in determining the tax imposed for
 7 the taxable year pursuant to section 877(b).

8 “(3) DIVIDENDS FROM EMPLOYEE STOCK OWN-
 9 ERSHIP PLANS.—Subsection (a) shall not apply to
 10 any dividend described in section 404(k).”.

11 (b) CONFORMING AMENDMENTS.—

12 (1)(A) Subparagraph (A) of section 135(c)(4)
 13 of such Code is amended by inserting “116,” before
 14 “137”.

15 (B) Subsection (d) of section 135 of such Code
 16 is amended by redesignating paragraph (4) as para-
 17 graph (5) and by inserting after paragraph (3) the
 18 following new paragraph:

19 “(4) COORDINATION WITH SECTION 116.—This
 20 section shall be applied before section 116.”.

21 (2) Subsection (c) of section 584 of such Code
 22 is amended by adding at the end thereof the fol-
 23 lowing new flush sentence:

24 “The proportionate share of each participant in the
 25 amount of dividends received by the common trust fund

1 and to which section 116 applies shall be considered for
 2 purposes of such section as having been received by such
 3 participant.”.

4 (3) Subsection (a) of section 643 of such Code
 5 is amended by redesignating paragraph (7) as para-
 6 graph (8) and by inserting after paragraph (6) the
 7 following new paragraph:

8 “(7) DIVIDENDS.—There shall be included the
 9 amount of any dividends excluded from gross income
 10 pursuant to section 116.”.

11 (4) Section 854(a) of such Code is amended by
 12 inserting “section 116 (relating to exclusion of divi-
 13 dends received by individuals) and” after “For pur-
 14 poses of”.

15 (5) Section 857(c) of such Code is amended to
 16 read as follows:

17 “(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RE-
 18 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

19 “(1) TREATMENT FOR SECTION 116.—For pur-
 20 poses of section 116 (relating to exclusion of divi-
 21 dends received by individuals), a capital gain divi-
 22 dend (as defined in subsection (b)(3)(C)) received
 23 from a real estate investment trust which meets the
 24 requirements of this part shall not be considered as
 25 a dividend.

1 “(2) TREATMENT FOR SECTION 243.—For pur-
 2 poses of section 243 (relating to deductions for divi-
 3 dends received by corporations), a dividend received
 4 from a real estate investment trust which meets the
 5 requirements of this part shall not be considered as
 6 a dividend.”.

7 (6) The table of sections for part III of sub-
 8 chapter B of chapter 1 of such Code is amended by
 9 inserting after the item relating to section 115 the
 10 following new item:

 “Sec. 116. Exclusion of dividends received by individuals.”.

11 (c) EFFECTIVE DATE.—The amendments made by
 12 this section shall apply to taxable years beginning after
 13 December 31, 2002.

14 **SEC. 10. SENSE OF THE SENATE REGARDING A CONTRACT**
 15 **WITH INVESTORS.**

16 It is the sense of the Senate that—

17 (1) Congress should pass legislation to safe-
 18 guard American workers’ pension and retirement ac-
 19 counts,

20 (2) Congress should modernize this country’s
 21 international tax provisions in order to permit
 22 United States companies to better compete inter-
 23 nationally,

24 (3) Congress should repeal redundant, out-
 25 dated, and unscientific regulatory burdens on inves-

1 tors and United States companies and perform a
2 cost benefit analysis before enacting new burdens on
3 United States businesses and investors,

4 (4) Congress should enact meaningful tort re-
5 form, and

6 (5) Congress should enact meaningful tax re-
7 form that simplifies the Federal tax code and re-
8 duces the cost recovery periods that businesses are
9 forced to use to recover the costs of capital.

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